KAI !GARIB
MUNISIPALITEIT-MUNICIPALITY

KAI !GARIB LOCAL MUNICIPALITY

(Demarcation code NC082)

UNAUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Index

The reports and statements set out below comprise the unaudited annual financial statements presented to the provincial legislature:

Index

Abbreviations

ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
CPI	Consumer Price Index
DORA	Division of Revenue Act
DWS	Department of Water Affairs and Sanitation
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
GLCCM	General Landfill Closure Costing Model
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
INEP	Intergrated National Electrification Programme
LG SETA	Local Government Sector Education Training Programme
LSA	Long Service Awards
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MLCCM	Municipal Landfill Closure Costing Model
mSCOA	Municipal Standard Chart of Accounts
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
PEMA	Post-employment Medical Aid Subsidy Liability
PPP's	Public Private Partnerships
SA GAAP	South African Statements of Generally Accepted Accounting Practice
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WCA	Workers Compensation Administration

Relevant Legislation

Constitution of the Republic of South Africa (Act no 108 of 1996)
Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998)
Nature of business and principal activities	Kai !Garib Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)
Vision statement	Creating an economically viable and fully developed Municipality, which enhances the standard of living of all the inhabitants/community of Kai !Garib through good governance, excellent service delivery and sustainable development
Mision statement	Provision of transparent, accountable and sustainable service delivery
Demarcation code	NC082
Grading of local authority	Low capacity municipality
Accounting Officer	Dr. J. Mac Kay (Acting)
Chief Finance Officer (CFO)	Mrs. A.F. Beukes
Registered office	164 11th Avenue Kakamas 8870
Postal address	Private Bag X 6 Kakamas 8870
Bankers	ABSA Bank Limited Standard Bank Limited
Auditors	Auditor General of South Africa
Attorneys	Matthews and Partners Inc
Level of assurance	These unaudited annual financial statements will be audited in compliance with the applicable requirements of the Municipal Finance Management Act, No. 56 of 2003.
Preparer	The unaudited annual financial statements were internally compiled by Wim Scheepers, the municipality's Budget and Reporting Manager
Telephone number	(054) 431 6300
Fax number	(054) 431 6301
Email address	admin@kaigarib.gov.za
Website	www.kaigarib.gov.za

Members of the Municipal Council

Mayor	Cllr. M.M. Louw	
Speaker	Cllr. D.W. Fienies	
Ward councillors	Cllr. D. Jaar	ANC
	Cllr. B.B. Kordom	ANC
	Cllr. B.M. Bock	ANC
	Cllr. P.A. Thomas	ANC
	Cllr. M.A. Papier	ANC
	Cllr. V.W. Sacco	ANC
	Cllr. N.J. Snyers	ANC
	Cllr. D.W. Fienies	ANC
	Cllr. E.E. Frits	ANC
	Cllr. W.D. Klim	ANC
Proportional members	Cllr. C. Markgraaf	DA
	Cllr. J.M. de Klerk	DA
	Cllr. C.F.P. Bezuidenhoudt	DA
	Cllr. C. Kruger	DA
	Cllr. M.Y. April	DA
	Cllr. E.K. Strauss	DF
	Cllr. R. van Rooyen	DF
	Cllr. C. April	EFF

Council committees

Executive committee

Chairperson:	Cllr. M.M. Louw
Members:	Cllr. W.D. Klim
	Cllr. C. Markgraaf

Socio-economic development committee

Chairperson:	Cllr. D.R. Jaar
Members:	Cllr. B.B. Kordom
	Cllr. M.A. Papier
	Cllr. C. April
	Cllr. C. Kruger

Institutional development committee

Chairperson:	Cllr. V.W.W. Sacco
Members:	Cllr. B.M. Bock
	Cllr. N.J. Snyers
	Cllr. J.M. de Klerk
	Cllr. E.K. Strauss

Infrastructure development committee

Chairperson:	Cllr. B.B. Kordom
Members:	Cllr. E.E. Fritz
	Cllr. P.A. Thomas
	Cllr. R. van Rooyen
	Cllr. C.F.P. Bezuidenhoudt

Municipal public account committee

Chairperson:	Cllr. B.M. Bock
Members:	Cllr. V.W.W. Sacco
	Cllr. D.R. Jaar
	Cllr. E.K. Strauss
	Cllr. M.Y. April

Munisipale Gebou
11de Laan
Tel 054 461 6400
Faks 054 461 6401
Privaatsak X 6
KAKAMAS
8870
BTW Nr. 4170193371

KAI !GARIB
MUNISIPALITEIT-MUNICIPALITY

Municipal Building
11th Avenue
Tel 054 461 6400
Fax 054 461 6401
Private Bag X 6
KAKAMAS
8870
VAT No. 4170193371

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the unaudited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the unaudited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the unaudited annual financial statements and was given unrestricted access to all financial records and related data.

The unaudited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The unaudited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the unaudited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the municipality is very reliant on grants from National Treasury. Funding will be received from National Treasury as long as the municipality comply with all legislation requirements. The collection of outstanding consumer debtor accounts and effective service delivery is also a priority of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's unaudited annual financial statements. The unaudited annual financial statements have been examined by the municipality's external auditors and their report will be presented after the annual auditing process.

The unaudited annual financial statements set out on pages 7 to 57, which have been prepared on the going concern basis, were approved by the accounting officer and were signed by him.

Dr. J. Mac Kay (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
31 October 2020

Munisipale Gebou
11de Laan
Tel 054 461 6400
Faks 054 461 6401
Privaatsak X 6
KAKAMAS
8870
BTW Nr. 4170193371

Municipal Building
11th Avenue
Tel 054 461 6400
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KAKAMAS
8870
VAT No. 4170193371

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in kai !garib local municipality is local municipality performing functions as set out in the constitution (act no 105 of 1996) and operates principally in South Africa and [state other countries].

The operating results and state of affairs of the municipality are fully set out in the attached unaudited annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 259,815,593 and that the municipality's total liabilities exceed its assets by R 259,815,593.

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these unaudited annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officers' interest in contracts

Describe.

5. Accounting policies

The following International Financial Reporting Standards were applied prior to the commencement dates in the current year:

Details to be input here...

The impact on the results of the municipality in adopting the above policies is reflected in note - to the unaudited annual financial statements.

The unaudited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Changes
Dr. J. Mac Kay (Acting)	
Mr. I.G.A. de Waal	Resigned 31 July 2020

7. Corporate governance

General

The accounting officer are committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit committee

The audit committee was established with effect from 1 July 2014. The chairperson of the audit committee is Mr. H.C. Ogu, who is an independent audit committee member. Other independent members of the audit committee are, Me. M.Venter and Me. A. Viljoen.

Internal audit

The municipality established an internal audit unit on 1 April 2014. Since the establishment of the internal audit unit ZF Mgcawu District Municipality assists the municipality with their internal audit functions as required by legislation.

8. Bankers

The municipality's primary bank accounts are with ABSA Bank Limited and Standard Bank Limited and will continue to bank with them in the new financial year.

9. Auditors

Auditor General of South Africa will continue in office for the next financial period.

10. Public Private Partnership

The municipality did not enter into any Public Private Partnerships for the financial year under review, nor does it have any existing PPP's

11. Non-compliance with applicable legislation

In terms of section 65 (2)(e) of the Municipal Finance Act (No. 56 of 2003), all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Due to cash flow constraints, the municipality, could not settle all money owing within the prescribed period.

In terms of section 126 (1)(a) of the Municipal Finance Act (No. 56 of 2003), the accounting officer of a municipality must prepare the annual financial statements within 2 months after the end of the financial year.

12. Municipal jurisdiction

Kai !Garib Municipality have the following surrounding towns under its jurisdiction:

- Kakamas
- Keimoes
- Kenhardt
- Alheit
- Augrabies
- Blaauwskop
- Bloemsmond
- Cillie
- Currieskamp
- Lennertsville
- Lutzburg
- Mactaggerscamp
- Marchand
- Riemvasmaak
- Soverby
- Vredesvallei
- Eksteenskuil

The unaudited annual financial statements set out on pages 7 to 57, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Dr. J. Mac Kay (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
31 October 2020

Munisipaliteit Kai !Garib Municipality

Munisipale Gebou
11de Laan
Tel 054 461 6400
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Certification of Remuneration of Councillors

Declaration by the Accounting Officer

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution and according to the Government Gazette 43246 dated 24 April 2020. This read with the Remuneration of Public Officer Bearers Act, Circular 14/2015 dated 27 March 2015 of SALGA, the Minister of Corporative Governance and Traditional Affair's determination in accordance with this Act and the approval letter received from the Minister
of Corporative Governance, Human Settlements and Traditional Affair's on 3 April 2018.

Dr. J. Mac Kay (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
31 October 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Notes	2020	2019 Restated*
Assets			
Current Assets			
Cash and cash equivalents	12	543,199	552,122
Inventories	8	800,233	888,728
Other financial assets		66,978	66,978
Receivables from exchange transactions	9	46,206,410	17,031,808
Receivables from non-exchange transactions	10	34,340,828	21,475,535
VAT receivable	11	17,822,795	13,575,260
		99,780,443	**53,590,431**
Non-Current Assets			
Other financial assets		(990,850)	(1,813,441)
Heritage assets	6	112,955	112,955
Intangible assets	5	134,569	125,715
Investment property	3	2,377,000	2,289,000
Property, plant and equipment	4	776,035,130	759,352,055
		777,668,804	**760,066,284**
Total Assets		**877,449,247**	**813,656,715**
Liabilities			
Current Liabilities			
Bank overdraft	12	360,841	549,483
Consumer deposits	16	1,997,741	1,866,204
Employee benefit obligation	7	790,000	657,393
Finance lease obligation	13	6,623	721,914
Other financial liabilities		11,076,004	9,611,086
Payables from exchange transactions	15	474,443,971	369,428,400
Provisions	14	1,931,141	2,085,417
Unspent conditional grants and receipts		19,000,447	7,641,851
		509,606,768	**392,561,748**
Non-Current Liabilities			
Employee benefit obligation	7	16,457,000	17,114,833
Finance lease obligation	13	1,513,800	6,306,255
Other financial liabilities		520,747	865,850
Provisions	14	89,535,339	91,676,083
		108,026,886	**115,963,021**
Total Liabilities		**617,633,654**	**508,524,769**
Net Assets		**259,815,593**	**305,131,946**
Accumulated surplus		259,815,593	305,131,946

The accounting policies on pages 14 to 28 and the notes on pages 29 to 57 form an integral part of the unaudited annual financial statements.

* See Note

Statement of Financial Performance

Figures in Rand	Notes	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Interest received	21	21,545,452	19,040,475
Rental of facilities and equipment	18	616,333	338,903
Service charges	17	91,427,831	92,383,199
Other income	20	604,542	771,927
Total revenue from exchange transactions		**114,194,158**	**112,534,504**
Revenue from non-exchange transactions			
Property rates	22	19,077,549	17,560,030
Transfer revenue			
Fines and penalties	19	80,628	91,400
Government grants and subsidies		93,737,264	98,370,000
Public contributions and donations	23	1,668,307	12,688,053
Total revenue from non-exchange transactions		**114,563,748**	**128,709,483**
Total revenue		**228,757,906**	**241,243,987**
Expenditure			
Bulk purchases	31	67,754,684	59,139,292
Contracted services	32	15,901,791	13,236,574
Debt impairment	30	-	19,910,197
Depreciation and amortisation	27	893,742	33,406,117
Employee related costs	24	118,573,971	112,136,571
Finance costs	29	32,026,122	52,047,431
General expenses	33	27,691,721	28,294,333
Remuneration of councillors	25	7,222,560	7,175,248
Repairs and maintenance	26	5,186,318	8,499,243
Total expenditure		**275,250,909**	**333,845,006**
Operating deficit		**(46,493,003)**	**(92,601,019)**
Actuarial gains/losses	7	2,098,875	602,892
Fair value adjustments	34	88,000	73,000
Loss on disposal of assets and liabilities		(1,010,222)	(2,211,964)
Reversal of impairments	28	-	745,091
		1,176,653	**(790,981)**
Deficit for the year		**(45,316,350)**	**(93,392,000)**

The accounting policies on pages 14 to 28 and the notes on pages 29 to 57 form an integral part of the unaudited annual financial statements.

* See Note

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**398,523,946**	**398,523,946**
Changes in net assets		
Surplus for the year	(93,392,000)	(93,392,000)
Total changes	(93,392,000)	(93,392,000)
Restated* Balance at 01 July 2019	**305,131,943**	**305,131,943**
Changes in net assets		
Surplus for the year	(45,316,350)	(45,316,350)
Total changes	(45,316,350)	(45,316,350)
Balance at 30 June 2020	**259,815,593**	**259,815,593**

Notes

* See Note

Accounting Policies

Figures in Rand	Note(s)	2020	2019

1. Presentation of Unaudited Annual Financial Statements

The unaudited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These unaudited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these unaudited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These unaudited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These unaudited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.4 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the unaudited annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the unaudited annual financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Accounting Policies

1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

1.5 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:
(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

1.7 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the unaudited annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.9 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

1.10 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Accounting Policies

1.12 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.15 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.16 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

1.19 Accounting by principals and agents (continued)

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.23 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

The budget for the economic entity includes all the entities approved budgets under its control.

The unaudited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

1.25 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its unaudited annual financial statements.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s unaudited annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual unaudited annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person’s family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Unaudited Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality has adopted the standard for the first time in the 2020/2020 unaudited annual financial statements.

The impact of the standard is not material.

3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	2,377,000	-	2,377,000	2,289,000	-	2,289,000

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	2,289,000	88,000	2,377,000

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	2,216,000	73,000	2,289,000

Fair value of investment properties	2,377,000	2,289,000

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

3. Investment property (continued)

Pledged as security

There are no Investment properties pleged as security for overdraft facilities.

Details of property

	2020	2019
Erf 1654 Kakamas		
Title deed number T74252/198		
- Purchase price: 20 July 1987	19,830	19,830
- Fair value adjustments	470,170	470,170
	490,000	**490,000**
Erf 666 Keimoes		
Title deed number G16/1942		
- Fair value adjustments	260,000	250,000
Erf 667 Keimoes		
Title deed number G16/1942		
- Fair value adjustments	830,000	800,000
Erf 337		
Title deed number T9690/1961		
- Fair value adjustments	407,000	399,000
Erf 1233		
Title deed number T142/1974		
- Fair value adjustments	390,000	350,000

The valuation reports and a register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

When valuing real estate, the Valuer must concern himself with placing a value on the rights attaching to the property and the benefits of occupation and/or ownership thereof. In the valuation process, cognisance must be taken of the purpose for which the property is capable of being used and the future income or amenities, which it is likely to produce. At the same time, however, the property must be compared with available substitutes and/or alternative investment opportunities. The object of the valuation process, therefore, is to arrive at a figure which will reflect the point of equilibrium between supply and effective demand at the time of valuing the property.

The effective date of the revaluations was 16 July 2020 as per valuation reports. The valuation of investment property were done to reflect the fair value of the municipality's investment properties as at 30 June 2020. Revaluations were performed internally by Mr. N. Kitching (Asset Manager) as a Candidate Valuer under the supervision of Mr. P.H. Venter, a registered Professional Valuer in terms of the Property Valuers Profession Act, 2000(Act No.47 of 2000). Mr. P.H. Venter are not connected to the municipality and he and Mr. N. Kitching have recent experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

Investment properties comprise residential and commercial properties that are rented out, as well as vacant land held for a currently undetermined use.

There are no restrictions on the realisibility of investment property or the remittance of revenue and proceeds of disposal.

Amounts recognised in surplus and deficit for the year.

	2020	2019
Fair value adjustments	88,000	73,000

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	61,388,513	(15,328,161)	46,060,352	61,388,481	(15,328,161)	46,060,320
Community assets	31,779,113	(10,347,100)	21,432,013	31,779,113	(10,347,100)	21,432,013
Infrastructure assets	833,234,288	(245,258,734)	587,975,554	791,550,672	(245,258,734)	546,291,938
Land	95,174,592	-	95,174,592	95,348,380	-	95,348,380
Landfill sites	31,726,582	(30,921,500)	805,082	31,726,582	(30,921,500)	805,082
Work-in-progress	15,477,105	-	15,477,105	34,104,795	-	34,104,795
Computer equipment	3,116,060	(2,104,000)	1,012,060	2,790,358	(2,104,000)	686,358
Furniture and fixtures	6,690,046	(4,551,477)	2,138,569	6,511,614	(4,551,477)	1,960,137
Motor vehicles	14,611,454	(6,905,346)	7,706,108	14,611,454	(6,905,346)	7,706,108
Office equipment (Leased)	5,900,833	(8,571,839)	(2,671,006)	12,317,636	(8,165,104)	4,152,532
Plant and machinery	2,051,352	(1,126,651)	924,701	2,051,352	(1,246,960)	804,392
Total	**1,101,149,938**	**(325,114,808)**	**776,035,130**	**1,084,180,437**	**(324,828,382)**	**759,352,055**

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Community assets	118,652	118,652
Electricity infrastructure	-	5,758,140
Sewerage infrastructure	4,546,614	3,197,414
Landfill sites	1,261,759	1,348,714
Water infrastructure	9,550,081	23,681,875
	15,477,106	**34,104,795**

Figures in Rand	2020	2019

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Infrastructure assets	Community assets	Total
Opening balance	33,986,143	118,652	34,104,795
Additions/capital expenditure	20,106,328	-	20,106,328
Transferred to completed items	(38,734,017)	-	(38,734,017)
	15,358,454	**118,652**	**15,477,106**

Reconciliation of Work-in-Progress 2019

	Infrastructure assets	Community assets	Total
Opening balance	41,742,249	84,343	41,826,592
Additions/capital expenditure	21,045,703	5,778,942	26,824,645
Transferred to completed items	(28,801,809)	(5,744,633)	(34,546,442)
	33,986,143	**118,652**	**34,104,795**

Expenditure incurred to repair and maintain property, plant and equipment

	2020	2019
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
General expenses	5,186,318	(8,499,243)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Unaudited Annual Financial Statements

Figures in Rand

5. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	735,597	(601,028)	134,569	645,262	(519,547)	125,715

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	125,715	90,335	(81,481)	134,569

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	213,452	(87,737)	125,715

Pledged as security

There are no Intangible assets pleged as security for overdraft facilities.

6. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayorial chains	112,950	-	112,950	112,950	-	112,950
Historical buildings	1	-	1	1	-	1
Recreational parks	1	-	1	1	-	1
Artwork	1	-	1	1	-	1
Memorial sites	2	-	2	2	-	2
Total	**112,955**	**-**	**112,955**	**112,955**	**-**	**112,955**

Reconciliation of heritage assets 2020

	Opening balance	Total
Mayorial chains	112,950	112,950
Historical buildings	1	1
Recreational parks	1	1
Artwork	1	1
Memorial sites	2	2
	112,955	**112,955**

Reconciliation of heritage assets 2019

	Opening balance	Total
Mayorial chains	112,950	112,950
Historical buildings	1	1
Recreational parks	1	1
Artwork	1	1
Memorial sites	2	2

Notes to the Unaudited Annual Financial Statements

Figures in Rand

6. Heritage assets (continued)

	112,955	**112,955**

Pledged as security

There are no Heritage assets pleged as security for overdraft facilities.

7. Employee benefit obligations

Defined benefit plan

The GRAP 25 Statement sets out the measurement recognition and disclosure requirements in accounting for postretirement “defined benefit” plans.

GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates).

Post retirement medical aid plan

The Municipality offers in-service members and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In estimating the liability for post-employment health care benefits a number of assumptions are required. GRAP 25 Statement places the responsibility on management to set these assumptions as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

7. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(17,247,000)	(17,772,226)
Non-current liabilities	(16,457,000)	(17,114,833)
Current liabilities	(790,000)	(657,393)
	(17,247,000)	**(17,772,226)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	17,772,226	16,711,340
Contributions (benefits paid)	(716,356)	(710,167)
Net expense recognised in the statement of financial performance	191,130	1,771,053
	17,247,000	**17,772,226**

Net expense recognised in the statement of financial performance

Current service cost	651,365	802,448
Interest cost	1,638,640	1,571,497
Actuarial (gains) losses	(2,098,875)	(602,892)
	191,130	**1,771,053**

Calculation of actuarial gains and losses

Increase in net discount rate	(3,693,000)	(865,585)
Subsidy increases higher/(lower) than assumed	312,000	42,591
Changes to membership profile different from assumed	1,223,162	139,125
Actual benefits vested, greater than expected	58,963	80,977
	(2,098,875)	**(602,892)**

The actuarial loss attributable to membership changes arises primarily due to:

- The unexpected inclusion of several new in-service members with more than a year's past service i.e. they were likely in-service non-members at the last valuation and joined medical aid since then; and
- one continuation member gained a spouse dependant on his medical aid

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2020	2019
Discount rates used	10.33 %	9.39 %
Health care cost inflation rate	6.39 %	6.86 %
Net discount rate	3.70 %	3.70 %

Key demographic assumptions used at the report date:

Average retirement age	62 years
Benefit accrual age	55 years
Continuation of membership at retirement	75%
Proportion with a spouse dependant at retirement	60%
Mortality during employment	SA 85-90
Mortality post employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal from service (sample annual rates)	See report

Financial assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 10.33% per annum has been used. The corresponding index-linked yield at this term is 4.70%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2020.

hese rates were calculated by using a liability-weighted average of the yields for the three components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields).

Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.39% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 4.89%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.70% which derives from ((1+10.33%)/(1+6.39%))-1.

The expected inflation assumption of 5.36% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.35%) and those of fixed interest bonds (9.39%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+10.33%-0.50%)/(1+4.70%))-1.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

7. Employee benefit obligations (continued)

The next contribution increase was assumed to occur with effect from 1 January 2020.

Replacement Ratio:

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

8. Inventories

Maintenance materials	689,863	801,426
RDP Properties	1,340	1,340
Water for distribution	109,030	85,962
	800,233	**888,728**

9. Receivables from exchange transactions

Consumer debtors - Electricity	6,590,415	4,490,195
Consumer debtors - Water	16,743,699	6,531,145
Consumer debtors - Sewerage	8,549,148	3,453,312
Consumer debtors - Refuse	7,938,662	2,661,409
Consumer debtors - Other 1	6,384,486	(104,253)
	46,206,410	**17,031,808**

10. Receivables from non-exchange transactions

Consumer debtors - Rates	34,340,828	21,475,535

11. VAT receivable

VAT	17,822,795	13,575,260

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	51,777	45,833
Bank balances	106,058	98,925
Short-term deposits	379,679	401,679
Bank overdraft	(355,157)	(543,799)
	182,357	**2,638**

Current assets	543,199	552,122
Current liabilities	(360,841)	(549,483)
	182,358	**2,639**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

13. Finance lease obligation

Minimum lease payments due		
- within one year	2,430,450	2,434,326
- in second to fifth year inclusive	10,676,963	7,409,050
	13,107,413	9,843,376
less: future finance charges	(11,586,990)	(2,815,206)
Present value of minimum lease payments	**1,520,423**	**7,028,170**

Non-current liabilities	1,513,800	6,306,255
Current liabilities	6,623	721,914
	1,520,423	**7,028,169**

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	1,520,423	7,028,169

14. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	91,676,083	(2,295,020)	89,381,063
Long service awards	2,085,417	-	2,085,417
	93,761,500	**(2,295,020)**	**91,466,480**

Reconciliation of provisions - 2019

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	67,632,887	24,043,196	91,676,083
Long service awards	2,085,417	-	2,085,417
	69,718,304	**24,043,196**	**93,761,500**

	2020	2019
Non-current liabilities	89,535,339	91,676,083
Current liabilities	1,931,141	2,085,417
	91,466,480	**93,761,500**

Environmental rehabilitation provision

A consolidated report for the provision of the final rehabilitation and closure costs for the landfills controlled by the municipality is compiled by Environmental and Sustainability Solutions CC, and should be read in conjuction with the detailed report for each landfill site.

The following landfills are included in this consolidated report:
- Marchand
- Lennertsville
- Kenhardt
- Keimoes
- Kakamas
- Currieskamp

General landfill closure costing model

ESS has developed a General Landfill Closure Costing Model (GLCCM) to estimate the final rehabilitation and closure costs for general landfills. The GLCCM is being updated in cooperation with Jones and Wagener Consulting Civil Engineers (Pty) Ltd, a company that is actively involved in rehabilitation and closure of landfill sites. The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The GLCCM provides a reliable best possible estimate of closure costs in terms of paragraph .49 of GRAP 19 or paragraph 36 of IAS 37.

The liability calculated using the GLCCM includes costs associated with:
- Pre-closure planning and approvals (four cost elements)
- Final rehabilitation and closure (seven cost elements)
- 30 years post-closure monitoring (seven costs elements)

A detailed description of the GLCCM is provided separately and is availible at the municipal offices.

Figures in Rand	2020	2019

14. Provisions (continued)

Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

CPI

The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 2.4107%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.t

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used.

Key financial assumptions used:

	Marchand, Lennertsville and Keimoes landfills	Kenhardt, Kakamas and Currieskamp landfills
CPI	2.4107 %	2.4107 %
Discount rate	5.9107 %	7.4107 %
Nett effective discount rate	3.5 %	5.0 %

15. Payables from exchange transactions

Accrual for employee bonusses	3,016,170	3,016,170
Accrual for employee leave pay	6,451,296	6,451,296
Capital projects retention fees	630,476	992,368
Consumer debtors with credit balances	9,386,539	9,386,539
Department of Transport, Safety and Liaison	37,434,713	37,434,713
Deposits received	331,447	307,133
Trade payables	371,864,372	263,353,257
Payroll creditors	41,515,533	42,688,599
Unallocated deposits and receipts	3,810,507	5,798,325
Service concession assets	2,918	-
	474,443,971	**369,428,400**

Figures in Rand	2020	2019

15. Payables from exchange transactions (continued)

Fair value of trade and other payables

Trade payables	371,864,372	263,353,257
Department of Transport, Safety and Liaison	37,434,713	37,434,713
Other	65,144,886	68,640,430
	474,443,971	**369,428,400**

16. Consumer deposits

Electricity	1,474,521	1,342,984
Water	523,220	523,220
	1,997,741	**1,866,204**

Guarantees held in lieu of electricity and water deposits

No interest is paid on deposits.

17. Service charges

Sale of electricity	64,512,397	63,171,763
Sale of water	14,133,452	15,474,333
Sewerage and sanitation charges	7,348,586	7,946,775
Refuse removal	5,433,396	5,790,328
	91,427,831	**92,383,199**

18. Rental of facilities and equipment

Premises		
Premises	528,556	86,379
Venue hire	-	198,720
	528,556	**285,099**
Facilities and equipment		
Rental of facilities	87,777	53,804
	616,333	**338,903**

Included in the above rentals are operating lease rentals at straight-lined amounts of R - (2019: R -) as well as contingent rentals of R - (2019: R -).

19. Fines, Penalties and Forfeits

General fines	-	186
Municipal traffic fines	48,885	63,940
Library fines	2,318	2,183
Meter tampering	11,341	25,091
Property exceedings	18,084	-
	80,628	**91,400**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

20. Other income

Administration income	(1)	290
Buildingplan fees	36,961	45,318
Call out fees	3,017	4,435
Cemetery fees	35,198	38,076
Clearance certificates	65,681	103,798
Commission: Policies and other	270,672	270,889
Connection fees	56,771	105,943
Firefighting fees	500	-
Firesafety certificates and inspections	-	1,200
Land use change fees	6,000	-
Photocopies	509	1,669
Posters and banners	2,940	2,974
Re-connection fees	18,493	15,946
Resort entrance fees	31,223	67,791
Rezoning applications	22,154	62,083
Tender fees	40,293	26,191
Traffic escorts	1,540	320
Valuation certificates	5,240	8,700
Sundry income	7,351	16,304
	604,542	**771,927**

21. Investment revenue

Interest revenue		
Bank	2,421	252,135
Receivables from exchange transactions	14,233,462	12,623,038
Receivables from non-exchange transactions	7,309,569	6,165,302
	21,545,452	**19,040,475**

22. Property rates

Rates received

All properties within the municipality's jurisdiction	23,254,517	21,056,616
Less: Income forgone	(4,176,968)	(3,496,586)
	19,077,549	**17,560,030**

Valuations

Residential	935,000,000	943,383,000
Commercial	147,794,200	129,134,200
State	156,128,000	163,928,000
Municipal	6,143,000	7,433,000
Small holdings and farms	5,294,428,655	5,302,184,655
Property rates 1	202,621,000	196,022,000
	6,742,114,855	**6,742,084,855**

Property rates are levied on an annual basis with the final date for payment for annual rate payers to be 30 September 2019 (30 June 2020) for monthly rate payers. Interest at the maximum bank percentage charged per annum plus 1%, is levied on consumer’s property rates outstanding amount, one month after the due date.

The municipality was granted extension by MEC for Corporative Governance, Human Settlements and Traditional Affairs to implement a new general valuation roll until 30 June 2021. The new general valuation roll will be compiled during the 2020 financial year and will be implemented on 1 July 2021.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

23. Public contributions and donations

Property, plant and equipment	1,668,307	12,688,053

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

24. Employee related costs

	2020	2019
Acting allowances	1,049,226	1,580,637
Basic salary and wages	78,859,768	74,888,832
Bonuses	6,346,684	6,130,845
Cell phone allowances	281,221	239,544
Group insurance contributions	2,359	2,203
Housing allowances	973,791	800,340
Industrial council contributions	44,499	43,570
Leave pay-outs	646,384	428,087
Long service awards	254,330	-
Medical aid contributions	2,678,381	2,467,718
Nightshift allowances	868,747	446,267
Overtime payments	3,363,630	4,248,971
Pension fund contributions	13,046,853	12,177,190
Post employment medical aid interest	1,638,640	1,571,497
Post employment service costs	651,365	802,448
Shift allowances	574,669	290,185
Standby allowances	2,619,547	2,509,259
Travel allowances	3,749,297	2,701,524
Transport allowances	213,430	101,150
Unemployment insurance fund contributions (UIF)	711,150	706,304
	118,573,971	**112,136,571**

Remuneration of Municipal Manager

	2020	2019
Annual remuneration	886,289	484,716
Acting allowance	98,914	194,408
Annual bonus	54,140	40,393
Medical aid contributions	7,565	43,610
Pension fund contributions	15,859	86,614
Telephone allowance	2,200	11,400
Travel allowance	256,821	99,052
Leave pay-out	134,094	-
UIF contributions	1,785	1,785
Bargaining council contribution	19	105
	1,457,685	**962,083**

Mr. I.G.A. de Waal resigned as acting Municipal Manager on 31 July 2020.

Dr. J. Mac Kay, director Properties, planning and development is acting as Municipal Manager currently.

Remuneration of Chief Finance Officer (CFO)

	2020	2019
Annual remuneration	716,313	451,428
Acting allowance	94,588	224,110
Annual bonus	51,940	37,619
Medical aid contributions	8,986	49,062
Pension fund contributions	14,769	80,666
Telephone allowance	18,700	11,400
Travel allowance	235,420	101,688
Leave pay-out	143,603	-
UIF contributions	1,785	1,785
Bargaining council contribution	19	105
	1,286,122	**957,862**

Mrs. A.F. Beukes was as appointed as Chief Financial Officer (CFO) on 1 September 2019

Figures in Rand	2020	2019

24. Employee related costs (continued)

Remuneration of Director: Corporate Services

Annual remuneration	868,891	815,439
Acting allowance	5,434	3,647
Performance bonus	-	66,132
Telephone allowance	19,800	17,100
Travel allowance	289,634	269,841
UIF contributions	1,785	1,785
	1,185,544	**1,173,944**

Adv. R.S. Neethling was permanently appointed as the Director: Corporate Services on 1 December 2013.

Remuneration of Director: Technical and Enginering Services

Annual remuneration	1,026,562	90,440
Telephone allowance	19,800	1,425
Leave pay-out	26,457	-
UIF contributions	1,785	149
	1,074,604	**92,014**

Mr. M.C. Links was appointed as acting Director: Technical and Enginering Services on 1 June 2019.

Remuneration of Director: Properties, Planning and Development

Annual remuneration	917,051	1,085,280
Acting allowance	-	16,278
Performance bonus	-	66,132
Telephone allowance	19,800	17,100
Travel allowance	241,474	-
Long service award	34,675	-
UIF contributions	1,785	1,785
	1,214,784	**1,186,575**

Dr. J. MacKay was permanently appointed as Director: Development and Planning on 1 December 2013.

25. Remuneration of councillors

Mayor	871,308	868,549
Speaker	705,208	703,000
Executive Committee Members	776,587	774,278
Councillors	4,869,457	4,829,421
	7,222,560	**7,175,248**

In-kind benefits

The Mayor, Speaker and Councillors are full-time Councillors of the municipality.

The Mayor is provided with secretarial support at the cost of the Council, and the Mayor has use of a Council provided vehicle for official duties.

The Councillors remuneration is in line with the upper limits as per the latest Government Gazette.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

26. Repairs and maintenance

Property, plant and equipment	5,186,318	8,499,243

27. Depreciation and amortisation

Intangible assets	81,481	87,735
Property, plant and equipment	812,261	33,318,382
	893,742	**33,406,117**

28. Impairment of assets

Impairments		
Property, plant and equipment	-	(745,091)

29. Finance costs

Development Bank of South Africa	1,119,814	1,290,067
Finance leases	1,831,273	1,304,651
Interest on convertible instruments	(2,295,020)	24,043,196
Trade and other payables	31,370,055	25,409,517
	32,026,122	**52,047,431**

30. Debt impairment

Debt impairment	-	15,535,741
Contributions to debt impairment provision	-	4,374,456
	-	**19,910,197**

31. Bulk purchases

Electricity	62,513,866	56,077,693
Water	5,240,818	3,061,599
	67,754,684	**59,139,292**

32. Contracted services

Presented previously		
Information Technology Services	394,875	460,911
Fleet Services	4,222,940	4,663,111
Operating Leases	4,064,776	6,835,269
Specialist Services	391,784	138,723
Other Contractors	195,828	271,150
Outsourced Services		
Clearing and Grass Cutting Services	251,156	-
Water Takers	4,162,617	-
	13,683,976	**12,369,164**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

33. General expenses

Advertising	349,929	229,927
Auditors remuneration	3,646,709	2,901,748
Bank charges	783,994	813,281
Billing charges	-	907,503
Commission: Sale of pre-paid electricity	176,338	209,242
Community development and training	4,244,189	1,788,964
Computer expenses	27,619	64,859
Conferences and seminars	-	12,000
Consulting and professional fees	891,826	1,951,921
Donations	78,111	46,717
Entertainment	275,285	780,843
Expense 1	1,170,237	788,208
Licence fees	4,056	2,028
Land surveyor fees	-	254,176
Lease rentals on operating leases	44,828	122,910
Motor vehicle expenses	3,378,707	4,734,238
Other expenses	182,050	-
Postage and courier	21,328	31,680
Printing and stationery	259,823	348,674
Protective clothing	1,219,012	646,530
Refuse	214,615	428,064
Skills development levy (SDL)	993,077	952,843
Spatial development	81,600	352,251
Subscriptions and membership fees	22,853	18,045
Town planning	(8,400)	4,800
Training	260,837	243,983
Travel and subsistence	5,719,237	6,004,139
Valuation roll expenses	155,669	127,695
Water purification chemicals	2,648,516	2,622,065
Water sample testing	310,068	350,999
Ward committee members	539,608	554,000
	27,691,721	**28,294,333**

34. Fair value adjustments

Investment property (Fair value model)	88,000	73,000

35. Auditors' remuneration

Fees	3,646,709	2,901,748

36. Contingencies

Contingent liabilities

The municipality has the following Legal cases pending which could result in possible outflow of economic resources.

Nr	Type of case	Parties involved	Description	Commenced	Status	Potential liability
1	Litigation	HC Turner, CJG Turner & DJ Turner / Kai !Garib Municipality	Claim: Orange River Flood Damage, Keimoes	Prior 2012/13	Pending	664,100
2	Litigation	JG van Niekerk & Van Niekerk Nieuwoudt / Kai !Garib Municipality	Claim: Orange River Flood Damage, Keimoes	Prior 2012/13	Pending	250,041
3	Litigation	Me. E. Basson / Kai !Garib Municipality	Claim: Three months salary, medical disability on own request, Keimoes	2014/15	Pending	52,728
4	Litigation	Andre Bezuidenhout t/a Snoekie Wegneemetes & Andre Bezuidenhout t/a Water Empire / Kai !Garib Municipality	Damages	2016/2017	Pending	10,000
5	Litigation	Transnet / Poonasaib & Kai !Garib Municipality	Eviction. Municipality is the 2nd Respondent to provide alternative accommodation	2018	Pending	15,000
6	Litgation	Kai !Garib Municipality / Mpepule Trading	Damages	2018	Completed	30,000
7	Litigation	Triple D Farms / W Bosman & 9 Others	Eviction	2018	Completed	5,000
8	Litigation	NHBRC / Markus & 9 Others	Interdict barring Municipality from issuing Certificate of Occupancy: Instructions not to defend	2018	Completed	4,285
9	Litigation	SS Straus / Kai !Garib Municipality	Personal injury claim against municipality	2019	Pending	150,000

Matthews and Partners Inc has assisted the municipality in the current financial year with their legal procedings.

Contingent assets

In terms of Section 3(2) of the Institution of Legal proceedings against certain Organs of State Act No 40 of 2002, the municipality gave notice to to Eskom Holdings Soc on 1 October 2020 to notify them of the municipality intention to institute legal action against Eskom Holdings Soc. This is in with regard to the wheeling agreement (sale of electricity within the municipality's jurisdiction) between the municipality and Eskom Holdings Soc that was not honored from the year 1992.

Eskom Holdings Soc sells electricity directly to the towns of Cillie, Lutzburg and Lennertsville, that falls in the municipality's jurisdiction, through the municipality's bulk electricity meters. From 1992 the municipality was not credited for the electricity usage of these 3 towns.

On the date the letter was send to Eskom Holdings Soc to notify them of the municipality's intention to initiate legal proceedings the amount owed by Eskom Holdings Soc to the municipality amounted to R 211,631,145.

Van Wyk Attorneys Inc is appointed to litigate the legal proceedings on behalf of the municipality.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

37. Related parties

Relationships

Accounting Officers	Refer to accounting officers' report note
Suppliers in service of the state	NB Mechanical Sales/Wife N Kasimbinque/Wife
Members of key management	Mr. I.G.A. de Waal (Resigned 31 July 2020) Mrs. A.F. Beukes Adv. R.S. Neethling Mr. J. Mac Kay Mr. M.C. Links

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties

	2020	2019
NB Mechanical Sales	-	142,308
N Kasimbinque	4,000	1,169,313

The suppliers listed above are being treated as normal suppliers, no special terms and conditions are associated with them as suppliers.

No guarantees are given or received from them.

Commitments with related parties

	2020	2019
N Kasimbinque	-	1,259,637

Related party transactions

Purchases from (sales to) related parties

	2020	2019
NB Mechanical Sales	7,807	186,352
N Kasimbinque	726,682	2,177,618

Key management information

Description	Number
Mayor	1
Speaker	1
Councillors	17
Municipal Manager	1
Section 57 Managers	4

Notes to the Unaudited Annual Financial Statements

Figures in Rand

37. Related parties (continued)

Remuneration of management

Management class: Councillors

2020

	Councillor allowance	Travel allowance	Cell phone allowance	Total
Mayor				
Cllr. M.M. Louw	622,881	207,627	40,800	871,309
Speaker				
Cllr. D.W. Fienies	498,306	166,102	40,800	705,208
Executive committee members				
Cllr. W.D. Klim	260,620	86,873	40,800	388,293
Cllr. C. Markgraaf	260,620	86,873	40,800	388,293
Councillors				
Cllr. D. Jaar	252,969	84,323	40,800	378,092
Cllr. B.B. Kordom	252,969	84,323	40,800	378,092
Cllr. B.M. Bock	252,969	84,323	40,800	378,092
Cllr. P.A. Thomas	197,119	65,707	40,800	303,626
Cllr. N.J. Snyers	197,119	65,707	40,800	303,626
Cllr. E.E. Frits	197,119	65,707	40,800	303,626
Cllr. V.W. Sacco	252,969	84,323	40,800	378,092
Cllr. M.A. Papier	197,119	65,707	40,800	303,626
Cllr. E.K. Strauss	197,119	65,707	40,800	303,626
Cllr. M.Y. Basson	187,296	62,432	37,400	287,127
Cllr. C. Kruger	197,119	65,707	40,800	303,626
Cllr. C.F.P. Maasdorp	197,119	65,707	40,800	303,626
Cllr. J.M. de Klerk	197,119	65,707	40,800	303,626
Cllr. C. April	197,119	65,707	40,800	303,626
Cllr. A.R. Smith	98,228	32,744	20,400	151,372
Cllr. R. van Rooyen	120,760	40,254	24,942	185,956
	4,834,656	**1,611,558**	**776,342**	**7,222,560**

Notes to the Unaudited Annual Financial Statements

Figures in Rand

37. Related parties (continued)

2019

	Councillor allowance	Travel allowance	Cell phone allowance	Total
Mayor				
Cllr. M.M. Louw	620,812	206,937	40,800	868,549
Speaker				
Cllr. D.W. Fienies	496,650	165,550	40,800	703,000
Executive Committee Members				
Cllr. W.D. Klim	259,754	86,585	40,800	387,139
Cllr. C. Markgraaf	259,754	86,585	40,800	387,139
Councillors				
Cllr. D. Jaar	252,128	84,043	40,800	376,971
Cllr. B.B. Kordom	252,128	84,043	40,800	376,971
Cllr. B.M. Bock	252,128	84,043	40,800	376,971
Cllr. P.A. Thomas	196,464	65,488	40,800	302,752
Cllr. N.J. Snyders	196,464	65,488	40,800	302,752
Cllr. E.E. Frits	196,464	65,488	40,800	302,752
Cllr. V.W. Sacco	252,128	84,043	40,800	376,971
Cllr. M.A. Papier	196,464	65,488	40,800	302,752
Cllr. E.K. Strauss	196,464	65,488	40,800	302,752
Cllr. M.O. Marshall	61,186	20,396	10,600	92,182
Cllr. M.Y. Basson	196,464	65,488	40,800	302,752
Cllr. C. Kruger	196,464	65,488	40,800	302,752
Cllr. C.F.P. Maasdorp	196,464	65,488	40,800	302,752
Cllr. J.M. de Klerk	196,464	65,488	40,800	302,752
Cllr. C. April	130,976	43,659	27,200	201,835
Cllr. R. van Rooyen	196,464	65,488	40,800	302,752
	4,802,285	**1,600,762**	**772,200**	**7,175,248**

Refer to note "Remuneration of councillors 25 "

38. Accounting Officers' emoluments

Executive

2020

	Annual remuneration	Acting allowance	Bonus	Medical aid contributions	Pension fund contributions	Travel allowance	Telepho allowan
Mr. I.G.A. de Waal	886,289	98,914	54,140	7,565	15,859	256,821	2,

2019

	Annual remuneration	Acting allowance	Bonus	Medical aid contributions	Pension fund contributions	Travel allowance	Telepho allowan
Mr. I.G.A. de Waal	484,716	194,408	40,393	43,610	86,614	99,052	11,

39. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the the municipality’s management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2020	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	474,443,971	-	-	-

At 30 June 2019	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	369,428,400	-	-	-

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

39. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Receivables from non-exchange transactions	46,206,410	17,031,808
Receivables from exchange transactions	34,340,828	21,475,535
Cash and cash equivalents	543,199	552,122

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

40. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 259,815,593 and that the municipality's total liabilities exceed its assets by R 259,815,593, furthermore the current liabilities of R 509,606,768 exceeds its current assets R 99,780,443 by R 409,826,325.

In addition, the municipality owed Eskom R 329,754,997 for bulk electricity supplied, and its water suppliers R 20,229,794 as at 30 June 2020.

The unaudited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The municipality is experiencing some financial difficulties, indicators are as follows:

- Suppliers are not paid within the legislative 30 days;
- Employee benefit obligations are unfunded;
- High levels of distribution losses;
- Slow collection and low recoverability of outstanding consumer accounts;
- Poor conditions of the municipality's movable assets;
- High salary bill, and
- Unfavourable financial ratios.

41. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure.

42. Unauthorised expenditure

Opening balance as previously reported	593,810,342	472,380,550
Opening balance as restated	**593,810,342**	**472,380,550**
Add: Expenditure identified - current	276,287,392	-
Add: Expenditure identified - prior period	-	121,429,792
Closing balance	**870,097,734**	**593,810,342**

43. Fruitless and wasteful expenditure

Opening balance as previously reported	87,679,045	62,269,042
Opening balance as restated	**87,679,045**	**62,269,042**
Add: Expenditure identified - current	31,370,055	-
Add: Expenditure identified - prior period	-	25,410,003
Closing balance	**119,049,100**	**87,679,045**

44. Irregular expenditure

Opening balance as previously reported	70,083,266	69,370,029
Opening balance as restated	**70,083,266**	**69,370,029**
Add: Irregular Expenditure - current	372,513	-
Add: Irregular Expenditure - prior period	-	713,237
Closing balance	**70,455,779**	**70,083,266**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2020	2019

45. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	12,028,165	8,126,512
Invoiced	3,435,449	2,710,153
Value added tax (VAT)	515,317	406,523
Interest charged	1,483,534	1,034,977
Amount paid	-	(250,000)
	17,462,466	**12,028,165**

PAYE and UIF

Opening balance	6,437,687	7,295,058
Current year subscription / fee	15,912,536	14,678,951
Amount paid - current year	(13,332,052)	(13,439,885)
Amount paid - previous years	(1,239,065)	(2,096,437)
	7,779,106	**6,437,687**

Pension and Medical Aid Deductions

Opening balance	3,542,293	7,131,026
Current year subscription / fee	25,159,574	23,043,770
Amount paid - current year	(18,013,705)	(19,501,477)
Amount paid - previous years	(3,542,293)	(7,131,026)
	7,145,869	**3,542,293**

VAT

VAT receivable	17,822,795	13,575,260

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. B.B. Kordom	78	130	208

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
Cllr. B.B. Kordom	208	360